

THE BOSTON HOUSING PARTNERSHIP, INC.

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THE BOSTON HOUSING PARTNERSHIP, INC.

DEMONSTRATION REHABILITATION PROGRAM



March, 1983



THE BOSTON HOUSING PARTNERSHIP, INC.
DEMONSTRATION REHABILITATION PROGRAM

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I. EXECUTIVE SUMMARY

The Boston Housing Partnership is a new, nonprofit corporation in Boston that has been established by business leaders, City officials and community organizations to turn around and save deteriorating housing in Boston. The Partnership grew out of a common concern among these people that substantial amounts of rental housing in Boston are being lost to decay and abandonment, and there is now no organized and effective program to save this housing. They recognized that neither private initiatives nor government agencies acting alone have sufficient resources to solve the problems of housing decline, and so they agreed to launch a joint public-private effort.

The Partnership was incorporated in late 1982, with a Board of Directors including representatives of the City of Boston, Boston-based financial institutions, charitable foundations, state agencies, and a variety of community organizations. It has adopted as its first major project a demonstration program to rehabilitate 500 units of deteriorated housing in Boston and return them to the market for low and moderate income households over the next 18 to 24 months. This initial program is targeted to buildings which can be acquired and renovated for an average of \$25,000 per apartment, and whose total development costs will average \$30,000 per apartment. Priority will be given to projects that contain at least 30 units, in order to efficiently distribute the overhead and packaging costs of development, and the Partnership anticipates that a typical project will contain around 50 units in several nearby but not necessarily adjacent buildings.

Projects will be sponsored by nonprofit community based organizations in order to be sure there is a clear tie between the housing and the surrounding neighborhood. The Partnership has retained Greater Boston Community Development, Inc., a nonprofit technical assistance agency, to assist community groups in developing feasible projects; this will enable community organizations to have access to the expertise needed to assemble property, evaluate renovation needs, and plan for housing management on a tight development schedule. The current schedule calls for the Partnership to issue a formal request for proposals in 60 days, with proposals due in July 1983. The Partnership will select proposals for funding by September, and anticipates that selected projects should be under renovation by early 1984.

Public and private financial commitments needed to implement the demonstration program are now being assembled by the Partnership. The goal is to combine sufficient grant funds with tax exempt mortgage financing to enable the average rent in a completed apartment to be \$265 per month. At this rent, a family earning \$12,720 per year can afford the housing if it spends 25 percent of income for rent.



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The demonstration program has projected costs of approximately \$16.5 million for 500 units of housing, while the Partnership's own budget for 1983-85 runs \$623,000, including the costs of providing technical assistance to community sponsors. The City of Boston has already committed \$1 million in Year 8 Community Development Block Grant funds to the demonstration program, and City officials have said they will work to commit an additional \$1.5 million out of future public resources such as CDBG funds, Urban Development Action Grant Funds, fees charged to developers of downtown property in Boston or other sources. Discussions have been held with both the Massachusetts Housing Finance Agency and the Government Land Bank about issuing tax exempt bonds for long-term mortgage financing totalling \$10 million, or about \$20,000 per unit. In addition, Boston financial institutions will be asked to purchase this tax exempt paper at rates which are both reasonable from their point of view as investors and financially feasible for the demonstration project. Equity financing of \$3 million will also be raised, and where necessary bridge loans will be structured to capture the future value of equity financing while projects are undergoing renovations. Finally, the Partnership is seeking \$1.15 million in foundation grants to cover both its direct operating costs and to write-down part of the development expenses of demonstration projects.

II. THE ORIGIN AND OBJECTIVES OF THE BOSTON HOUSING PARTNERSHIP, INC.

The Boston Housing Partnership, Inc. (BHP) is a new nonprofit corporation in Boston that has been established by business leaders, City officials and community organizations to turn around and save deteriorating housing in the city. The goals of BHP are to:

- o Promote, organize and manage programs that can salvage declining and abandoned housing and convert it into decent, moderately priced housing for residents of Boston.
- o Enlist the support and cooperation of the business community, government agencies and officials, and neighborhood based organizations so that the public and private sectors attack housing problems jointly.
- o Identify and implement effective methods of interrupting the cycle of decay and abandonment, so that Boston's housing stock is preserved.

A. ORIGIN OF BHP

The Boston Housing Partnership, Inc. evolved from discussions during late 1982 among a number of groups and individuals who shared a common concern about deteriorating housing in Boston. Many of these people were involved in Goals for Boston, a consortium of public officials, private business leaders and representatives of neighborhood organizations called together by the President of State Street Bank and Trust Company, William S. Edgerly, to define and support positive achievable goals for the city during the next five years. These community leaders were gravely concerned about the shortage of decent and affordable rental housing in Boston in the face of escalating demand. They saw that in strong market areas of the City, moderately priced rental housing was being lost to higher priced condominium conversions, while in weak market areas, lower cost rental housing was being lost to abandonment. There was widespread concern that the number of buildings being abandoned each year is growing, yet there is no effective program to combat abandonment, given the complex economic pressures behind it.

Abandonment begins when property owners face an imbalance between income and expenses. Without sufficient rental income to cover all operating costs, maintenance is cut and property begins to deteriorate. Mortgage and tax delinquency occur, and decay continues as the economics of the property indicate that its debts exceed its value. Typically, rental income is then used simply to generate as great a return as possible to the owner for as long as mortgage or tax foreclosure can be forestalled. Vacancies, non-payment of rent (often legally based on violations of the housing code or State Sanitary Code), vandalism, and legal actions by residents and creditors further undermine the property's financial base, and arson -- or, arson then abandonment -- represent the final stages of decline.

During the last decade in Boston some 20,000 housing units ran through this cycle. Public funds were used to demolish over 10,000 such units, and a similar number was totally rehabilitated and rerented under federal subsidized housing programs, such as the Section 8 program. But with the elimination of such deep subsidy programs by the Reagan administration, the largest public catalyst for intervening in the dynamic of abandonment is gone. And the economics which lead to abandonment make it virtually impossible for the private sector alone to intervene effectively in the process.

The Boston Housing Partnership was conceived as an alternative method to combat abandonment by jointly mobilizing public and private resources for reinvestment in deteriorating property. The effort appears worthwhile because Boston contains a large number of deteriorating, under-utilized and abandoned buildings that can be restored and there is a large demand for affordable rental housing.

B. OBJECTIVES AND INITIAL DEMONSTRATION PROGRAM OF BHP

The initial discussions of BHP called for a partnership among the City, Boston-based financial institutions, charitable foundations, state agencies and a variety of community organizations. It was felt that this new collaborative organization could accomplish three things: (1) harness the resources and experience of all parties involved, (2) develop strategies and programs to combat housing disinvestment and decay, and (3) implement programs and solutions. Thus, the Boston Housing Partnership was conceived as an action organization that would figure out how to intervene effectively in local housing markets in order to retain or, where needed, re-create affordable housing. It hopes to turn around the pattern of decline by judiciously matching limited public resources with private financing, and it intends to provide affordable housing for low income people through this effort since they are the households most likely to be displaced when housing is abandoned.

The Partnership anticipates that it will look at a number of ways of supporting housing in Boston. It intends to examine how the City's process of foreclosure on tax delinquent properties might be expedited and directed to encourage the prompt reuse and, if needed, restoration of such buildings. It wants to work with other concerned organizations such as the Boston Committee to define ways that small residential buildings, one to three-family houses can be effectively maintained.

The Partnership's first major initiative will be a demonstration program to rehabilitate 500 units of deteriorated housing and return them to the market for low and moderate income tenants over a period of 18-24 months. The program goal is to have community based non-profit organizations as the sponsors of renovation projects running from about 30 to 100 units in size. This initial program is targeted to buildings which can be acquired and restored for approximately \$25,000 per unit. This financial parameter is set in order to make

limited financial resources stretch as far as possible. It means that the properties initially restored by the Partnership are likely to be buildings that are on the way down, but are not yet totally abandoned, and that are still occupied but poorly maintained, if maintained at all. Technical assistance will be provided to interested community sponsors to help them understand what participation in the program entails, to identify and acquire potentially suitable properties, and to assess their own capacity to maintain viable housing over time, among other concerns. It is intended that this demonstration program, coupled with the continuing focus of major public and private actors on the problems of housing deterioration, will serve as the basis for a major attack on these problems over a period of years. By beginning its life with the demonstration program, the Partnership intends to show that these problems can be ameliorated and that, through a joint public/private effort, a critical mass of resources can be assembled to produce measurable results.

C. FORMATION AND STRUCTURE OF THE BHP

BHP was incorporated in December 1982 under Chapter 180 of the Laws of Massachusetts as a charitable corporation. Its incorporators were officers of State Street Bank and Trust Company, including its Chairman and President, William S. Edgerly, who has played a leading role in planning and launching BHP and who is its first chairman. A broad based board of directors was selected, to represent the diverse interests which will be involved in the Partnership's programs. It includes senior officials from the City of Boston: Paul Grogan, the Director of the Neighborhood Development and Employment Agency, and Lowell Richards, City Treasurer and Deputy Mayor; senior executive officers from private banks and insurance companies including Shawmut Corporation, First American Bank for Savings, Bank of New England, The First National Bank of Boston, Mutual Bank for Savings, John Hancock Insurance Company and Prudential Insurance Company. Other public sector representatives on the Board include John Blake, Executive Director of Massachusetts Housing Finance Agency; Jeffrey Simon, Executive Director of Massachusetts Land Bank; and Paula Gold, Secretary of Consumer Affairs. Community organizations represented are Living in Dorchester, Inquilinos Boricuas en Accion, Urban Edge, and Codman Square Housing Development Corporation. (A complete list of the members of the Board can be found at the end of this section.)

The Partnership has retained Bonnie Heudorfer, on loan for six months from the Community Investment Department of the First National Bank of Boston, as Executive Director.

THE BOSTON HOUSING PARTNERSHIP, INC.

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III. THE DEMONSTRATION REHABILITATION PROGRAM

A. SCOPE OF DEMONSTRATION PROGRAM

The goal of the demonstration program is to renovate 500 housing units in Boston during the next twenty-four months. The program design reflects the resources that the Partnership has already identified as likely to be available. Because such resources are obviously limited, this demonstration cannot be all things to all people. Certain properties will be too costly to rehab and others may be too costly to acquire or too difficult to manage. Projects will vary depending on a number of factors, including available stock, sponsor capacity and neighborhood needs. However, certain key elements essential to the demonstration will be found in all projects that the Partnership selects for funding. These are summarized briefly below.

1. Partnership Role: The Partnership will secure program commitments that enable the individual demonstration projects to be financially viable. It will provide technical assistance to sponsors in putting together proposed projects and provide a full range of development services to sponsors on projects selected for funding. It will evaluate all proposed projects, select the most viable ones for funding, and then have overall administrative responsibility for seeing that the selected projects are able to move forward on schedule.

By taking responsibility for assembling the financial resources needed by individual projects, the Partnership will enable community sponsors to focus their energies on finding appropriate properties and determining how they can be revitalized, reused and successfully managed over the long run. The Partnership hopes to build on the accomplishments of neighborhood organizations which have previously demonstrated that nonprofit groups with strong community ties can successfully control and operate housing, but it hopes to relieve them of the difficulty of persuading a variety of lenders that a particular project is viable. The Partnership will also work with the City of Boston to try to expedite the process of clearing up any delinquent taxes and of establishing reasonable future tax assessments on behalf of all properties, relieving sponsors of the need to coordinate City resources individually for each project. Thus, the Partnership will use its own resources to expedite processing that could otherwise require many months for a group acting by itself to accomplish.

2. The Housing Stock: The focus must be on partially deteriorated housing where total acquisition and rehabilitation costs average no more than \$25,000 per unit in order to assure feasibility. Priority will be given to development packages totalling more than 30 units in size in order to sustain the complex development and management effort required within the finite limits of technical assistance funding that the Partnership can provide. (The target stock and rehabilitation standards are described further below).



3. Households to be Served: The Partnership is committed to serving low and moderate income households, i.e., those who are eligible for federal Section 8 assistance.

"Low and moderate" income levels are defined according to the federal government's definition which says that a household is moderate income if it earns up to 80% of the average income in the metropolitan area and a household is very low income if it earns up to only 50% of the average income in the metropolitan area. The current income limits for families of different sizes according to this definition are given below. (These are the income limits for the federal Section 8 housing program.)

<u>Size of Family</u>	<u>Maximum Moderate Income Level</u>	<u>Very Low Income Level</u>
1 person	\$15,250	\$10,150
2 people	17,400	11,600
3 people	19,550	13,050
4 people	21,750	14,500
5 people	23,100	15,650
6 people	24,450	16,800
7 people	25,850	18,000
8 people	27,200	19,150

The Partnership will make every effort to obtain whatever federal or state rental assistance subsidies are available to ensure that lower income households can be served while maintaining the financial viability of projects. Assistance programs which the Partnership has begun exploring include Massachusetts Section 707 rental housing and federal Section 8 Existing Housing and Moderate Rehabilitation programs.

4. Development Sponsors: Community-based organizations will sponsor and have the long term controlling interest in all developments to maximize the resources available to the demonstration and to provide for neighborhood origination and direction. (The role of community organizations in project ownership is discussed further in Section IV. D below). The Partnership hopes to work with a variety of community sponsors, including both well established groups that have previously developed housing on their own initiative and new groups that are becoming active in neighborhoods with clear housing needs. In assessing which projects to fund, the Partnership will look for solid evidence that a group has the capacity to play an informed role in making decisions about housing and to carry the responsibility for operating housing in the long run. (And, of course, it will want to ascertain that groups are truly community based and are not "fronts" for private development interests.)

After a first round of projects is selected by the Partnership, should there not have been enough viable projects to utilize all available funding, then the Partnership will decide whether to revise the program design to enable for-profit developers to submit projects for funding by the Partnership. In addition, the Partnership will remain open to potentially assisting in or facilitating other housing development ventures that would be consistent with its purposes, including projects proposed by for-profit developers and projects to be developed as owner-occupied housing outside of the initial demonstration program.

5. Rent Levels: The Partnership is committed to keeping rents at levels affordable by low and moderate income households. Based upon its financial plan, an average rent for a two-bedroom apartment will be \$265 per month, which can be afforded by a family earning \$12,720 if it spends 25 percent of income on rent.

6. Management and Project Operations: By the time project sponsors submit applications to the Partnership for funding, they will need to indicate how the property will be managed. It is essential that an adequate management capacity be instituted for each project to insure that the initial investment is sustained and that residents receive decent housing services in the long run. This capacity may be found in either experienced staff which a community sponsor already may have or may hire for the specific project or in an experienced management agent. While a few established community groups already possess a substantial housing management capacity, most potential sponsors will not yet have this capacity. Therefore, before the due date for applications, the Partnership will provide assistance to potential sponsors in determining how they can enlist adequate management support.

The Partnership will also develop guidelines for tenant selection and marketing to be sure that project sponsors are aware of and comply with all funding agencies' guidelines for affirmative action and nondiscrimination. In addition, the Partnership expects that community sponsors will work with existing residents of buildings to be renovated so that residents are accommodated in the renovated property. Except in unusual circumstances, it is anticipated that residents will remain and that relocation will be minimized.

B. TARGET PROPERTIES AND REHAB STANDARDS

As noted above, the per-unit development budget for Partnership projects totals \$30,000, with \$25,000 allocated to acquisition and renovation while the remaining \$5,000 is allocated to "soft" development costs such as design, legal work, development packaging, and carrying costs (i.e., insurance, real estate taxes and mortgage interest) during the construction period. The \$25,000 can be split in any manner that works between the purchase price and renovation costs. If a building can be bought for \$3,000 per apartment, up to \$22,000 is available for renovation costs; but if a building costs \$15,000 per apartment, only \$10,000 can be spent on rehab.

1. Physical Condition: It is the Partnership's sense that this budget can be met only if buildings are still in generally sound structural conditions and still have some useable systems and/or do not need to have major changes in the room layouts. The ideal building is likely to be one which the current owner is unable to keep in compliance with code and keep current in tax and utility payments but which does not require a total "gut" rehabilitation. Chances are that if the heating, plumbing and wiring must all be new, and if the windows and roof must also be replaced, that the numbers will not work even if a building is free.

2. Type and Proximity of Buildings: In order for the \$5,000 per unit budgeted for overhead development costs to be sufficient for each project, each project will have to contain as many units as possible, as few buildings as possible, as close together as possible. There is no way to set absolute standards for these three criteria, but proposals will work best which present a manageable level of site assembly work, and enough geographical concentration to enable a contractor and management agent to do their respective tasks efficiently.

It is now thought that in order to facilitate production of 500 units of housing within two years, the Partnership will try to focus on development packages averaging 50 units. Projects are expected to range from 30 to 100 units in size, although any project may include any number of buildings of smaller size aggregated into one package. Also, smaller projects will be able to be submitted and would be selected by the Partnership if appropriate should be the number of units suitable for development in larger projects not utilize all available funding. The Partnership also recognizes that it will need to work with community organizations whose experience or potential for development is on a smaller scale to determine either if they can be incorporated into the demonstration program without diminishing its ability to renovate a substantial number of units within a short frame or if their needs can be better addressed by other Partnership initiatives.

3. Rehabilitation Standards: The Partnership will not expect finished units to meet or exceed the U.S. Department of Housing and Urban Development's Minimum Property Standards. But all units will have to meet or exceed the requirements of the State Sanitary Code and the applicable provisions of the State Building Code. As a guideline, the Partnership will suggest to project sponsors that work also result in units which comply with HUD's Housing Quality Standards (24 CFR Sec. 882.109) for Section 8 Existing and Moderate Rehabilitation units, since some projects may wish to benefit from operating subsidies from these sources initially or in the future. These standards set general performance requirements for decent, sanitary housing. For example, with regard to heating systems, they say:

The dwelling unit shall have and be capable of maintaining a thermal environment healthy for the human body...The dwelling unit shall contain safe heating and/or cooling facilities which are in proper operating condition and can provide adequate heat and/or cooling to each room in the dwelling unit appropriate for the climate to assure a healthy living environment. Unvented room heaters which burn gas, oil or kerosene are unacceptable.

The Massachusetts Architectural Barriers Code will also require compliance or waiver.

In general terms, the goal is to provide clean, safe and energy-efficient housing which is easily maintained by occupant and owner. It is not intended that intact and operable plumbing, interior finishes, appliances, counters, or windows be replaced, or that partitions be moved unless these elements can be expected to fail in the relatively short term. Instead, the Partnership will want expenditures channelled toward structural repair, energy conservation, and the selective repair and replacement of conditions or equipment which have failed or will soon fail.

C. PROCESS TIMETABLE AND CRITERIA FOR SELECTING PROJECT TO BE FUNDED

The Partnership has launched an information program to make as many community organizations as possible aware of the opportunity to sponsor housing through its demonstration Program. Already, the program has been announced in one major Boston newspaper, The Boston Globe, and informational notices have been published in eleven neighborhood newspapers in various sections of the City. The Partnership has also sponsored two public information meetings on February 25 and March 9, 1983 for potential community sponsors at which the role of BHP and the demonstration program were described. These meetings were widely advertised, and notices of them were sent to about 200 organizations. Approximately 50 groups were represented at the two meetings. Further outreach to community sponsors and follow-up with interested groups will be carried out by Greater Boston Community Development, Inc., which the Partnership has retained to provide technical assistance to community organizations, as described further in the next section.

During March and April while community organizations are beginning to assess whether they want to participate in the demonstration program and whether there is appropriate housing stock in their neighborhoods, the Partnership will develop a Request for Proposals that will be issued around the beginning of May. Proposals will be due in the middle of July, and the Partnership will decide which proposals to fund by the beginning of September. The target date for initial construction loan closing on the first projects is January 1984, with all projects closed by the spring of 1984, so that renovation work can be finished by the end of that year. (A preliminary development schedule for the entire demonstration program can be found at the end of this section.)

The RFP issued by the Partnership will describe in detail the information that community sponsors will need to submit in order for their projects to be considered for funding. The goal of the RFP will not only be to elicit the information that the Partnership will need in order to equitably and realistically select projects for funding, but also to clearly define for groups the information they will need in order to decide whether they want to proceed with a project.

Based on the information presented in proposals, the Partnership will select projects for funding. Its criteria for selecting proposals to be funded will encompass the following concerns:

- o How likely is a project to be completed within the time frame and budget limitations of the demonstration program?
- o Will the proposed renovation have a positive effect on the surrounding neighborhood by eliminating blight, by preserving housing that would otherwise be lost, by serving as a catalyst for other improvements efforts, by tying together key areas of a community, or by preserving affordable housing in an area that would otherwise be beyond the means of low and moderate income households?
- o Does the sponsoring organization have the strength and stamina to effectively direct housing over a period of many years, and has it made adequate arrangements for managing the housing so that it is likely to be maintained and financially stable?
- o If there are existing residents in the property, have they been involved in planning the project and do they support it?
- o Will the proposed renovation produce decent housing that meets the requirements of the Housing and Building Code; and complies with (or has obtained appropriate waivers of) the Zoning Code and Architectural Barriers Board Code?

PRELIMINARY PROJECT SCHEDULE

February 25, March 9, 1983	Public meetings to inform community organizations about the Demonstration Program
March - April, 1983	Community groups assess participation, identify property and pursue development
	GBCD provides information and technical assistance to groups
	Partnership begins assembling financial commitments
May 1983	Request for Proposals issued by Partnership
May 1983	Information sessions for potential project sponsors on proposal requirements
April - July 1983	GBCD provides technical assistance to potential sponsors
	Partnership completes financial structuring and assembly of commitments
July, 1983	Proposals due to Partnership
July - August, 1983	Partnership reviews proposals
August - September, 1983	Partnership announces which proposals it will initially finance
Sept. - Dec., 1983	Selected community sponsors complete development work, prepare to take over ownership and being renovations
Jan. - April 1984	Project development work completed and construction work begins
June - December, 1984	Renovation work completed

D. TECHNICAL ASSISTANCE & ASSISTANCE IN DEALING WITH PUBLIC AGENCIES

The demonstration program is an ambitious program, with short timetables. Early in the discussions of the program it became evident that if the Partnership wanted to assist housing sponsored by community organizations rather than by professional, for-profit development businesses, potential community sponsors would need access to the technical know-how that enables private development businesses to assemble property and complete development proposals. Therefore, the Partnership decided to retain Greater Boston Community Development, Inc. (GBCD) a private non-profit technical assistance organization with an 18 year track record in helping community groups successfully to develop and manage housing. GBGD's role is two-fold: first, it is helping the Partnership to develop the detailed financial plan for the demonstration program and, second, it is providing development services to interested community organizations.

GBGD's development services will be tailored to the needs of each group that wants its assistance. They may be as limited or as wide ranging as a group needs given its own experience and expertise. For instance, in the case of a strong community organization with its own staff who can compile most of the information needed to apply to the Partnership, GBGD's role might be limited to helping the group negotiate an option on buildings that the group has already identified as suitable candidates and checking whether its rehab cost estimates seem realistic. In the case of an unincorporated group of citizens who know where in their neighborhood there is deteriorated housing that should be restored, GBGD may function very much like staff to the group; it may perform a wide range of tasks from helping them to incorporate to tracking down building owners, determining the costs of renovating property, finding enough property to create a viable development package, hiring an architect to prepare renovation plans, and so forth.

Between now and the time that community organizations submit proposals to the Partnership in July 1983, the Partnership will cover the cost of GBGD's technical assistance, so that organizations can concentrate their energies on developing viable proposals without having to scramble for funds to cover initial assistance. Given the limits of the Partnership's own resources, GBGD's services will be constrained by the amount of funding that the Partnership can provide. Within this constraint, GBGD's objective is to help develop the largest possible number of feasible proposals that meet the Partnership's guidelines.

Once groups are selected for funding by the Partnership, they can choose whether to continue to utilize GBGD's services or whether to use either their own staff or other technical consultants to continue detailing projects so that they reach initial construction loan closings. Technical assistance provided after projects are selected will not, however, be covered by grant funds from the Partnership. Instead, all such technical services will need to be covered out of the development budget for a project. The Partnership is trying to identify sources of seed money loans so that at least

modest amounts of such costs, particularly a community organization's own staff expenses, can be covered as incurred, rather than being contingent on the closing of a construction loan. Most community organizations' budgets are too thin to cover extensive staff or consultant work without additional income, and the Partnership does not want the timing of fund availability to be so constrained that only relatively large and well financed groups can afford to participate in the demonstration program.

Assistance in dealing with public agencies: Based upon a preliminary review of buildings in Boston that may be candidates for rehabilitation through the demonstration program, the Partnership believes that many likely buildings may now be encumbered with public liabilities such as delinquent taxes or delinquent water and sewer bills. While, on the one hand, these are liabilities that must be discharged before property can be successfully restored, they also offer an opportunity for public intervention to assist in obtaining control of property. The Partnership intends to work closely with the City of Boston to determine both how the discharge of these liabilities can be handled as expeditiously as possible, and also whether the tax foreclosure process can be expedited for buildings in the program so that they can be acquired on a timely basis, at reasonable costs. City officials have already said they will work closely with the Partnership to identify publicly owned buildings and buildings with extensive tax arrears that might be renovated through the demonstration program and then to figure out how the City might expedite the acquisition of these buildings by potential community sponsors. This evidence of City support is a demonstration of the public/private cooperation which is vital to the success of the Partnership's program.

IV. FINANCING OF THE DEMONSTRATION PROGRAM

The demonstration program will utilize several sources of public and private financing in order to develop housing which can be afforded by low and moderate income households. The Partnership has already begun to secure financial commitments for the program, and it anticipates that the financial package will be complete structured by the time projects are selected at the beginning of September 1983. The proposed financial structure institutionalizes the joint public and private interests which together created the Partnership because it depends upon tying together public and private sector funding. It utilizes to loans from each sector and grants from each sector.

A. OVERALL FUNDING REQUIRED

The overall budget for the demonstration program is \$16.42 million, or an average of \$32,840 per apartment for 500 units. This includes all costs of acquisition, rehabilitation and development. In addition, it includes \$3,000 per unit for a project investment fund that will be used to internally write-down rent levels for low and moderate income families. A necessary complement to the demonstration program's budget is the budget for the Partnership itself, which is projected at less than four percent of the demonstration costs or \$623,000 for a three-year period. This modest Partnership budget is possible because the Partnership will have only a skeletal staff, while most of the costs of packaging suitable projects will become part of the development costs within the demonstration budget.

The major financial components of the combined \$17 million budgets for the Partnership and the demonstration program are summarized here, and each is described further in the remainder of this section. It is expected that \$1.15 million will be contributed by corporations and foundations, both local and national. Another \$2.5 million will come from public grants sources such as the City of Boston's Community Development Block Grant or Urban Development Action Grant programs. Approximately \$3.25 million will be generated by the syndication of the housing to investor limited partners who will have a 99% profit and loss interest for tax shelter benefits in limited partnerships controlled by the sponsoring organizations. These syndication proceeds will flow into the projects over a four to five year period. Two to four year bridge loans, against installments of investor capital, will be sought so that these funds are available as needed during construction and rent-up. The remaining \$10 million will come from tax exempt debt financing in the form of long term loans from such agencies as the Massachusetts Housing Finance Agency or the Massachusetts Government Land Bank. These public mortgage funds will be generated by bond issues which will, in turn, be purchased by private financial institutions in Boston on terms that ensure the financial feasibility of the demonstration program.

Overall budget projection for the Partnership and the demonstration program for the years 1983 through 1985 are found on the following page. These projections show that the anticipated financial program will yield an average rent, per apartment, of \$256 per month.

In order for the rents in demonstration projects to be kept at such affordable levels for low and moderate income families, other techniques of reducing the financing costs and costs to residents will need to be incorporated by the Partnership. Methods now being investigated include: (1) reduction of the interest rate on long term financing through the Massachusetts Section 13A interest reduction program for MHFA financed projects or through some successor program; (2) reduction or elimination of acquisition costs, possibly by utilizing City-owned properties or properties acquired through the tax foreclosure process; (3) application of rental subsidies through the State's Section 707 or the federal Section 8 Existing Housing and Substantial Rehabilitation programs; and (4) reduction of construction and operating costs through efficient design and management.

B. FUNDING COMMITTED BY THE CITY OF BOSTON

The City of Boston has already made a major commitment to the Partnership's demonstration program in the form of a \$1 million grant from its Year 8 Community Development Block Grant Funds. These funds will be available in the spring of 1983, and a modest portion of them will be used initially to cover part of the Partnership's own start-up costs and initial development expenses, including costs of technical assistance to potential community sponsors. The greater part of CDBG funds, approximately \$850,000, will be used as grant funds for development expenses incurred by sponsors whose projects are funded by the Partnership. In addition, the City administration will recommend that another \$500,000 be allocated in the City's year 9 CDBG budget, and it is hoped that these funds will be committed between September and December of 1983. Thirdly, the City administration is prepared to try to fund another \$1 million in 1984 by allocating additional CDBG funds, or by seeking Urban Development Action grant funds if the current prohibition barring the use of UDAG funds for housing development is changed, or by raising funds from large scale private development projects utilizing publicly owned and or other public resources in downtown Boston.

C. TAX EXEMPT MORTGAGE FINANCING

Preliminary discussions have been held with both the Massachusetts Housing Finance Agency and the Government Land Bank about the possibility of issuing tax exempt mortgage revenue bonds to generate long-term mortgage funds. Both have expressed an interest in the demonstration program, and the Partnership will work with them during the next three months to determine the best way to structure tax exempt financing. The Partnership intends to draw representatives of real estate and financial institutions into these discussions, so that tax exempt instruments can be structured in a way that is both

financially workable for the Partnership and enables local private financial institutions to purchase the resulting notes or bonds. The goal is to create 30 to 40 year permanent mortgages whose effective interest rates to housing projects are around ten percent. Once the framework for permanent financing is put in place, construction financing will also be obtained; and it may be either tax exempt or conventionally financed through Boston banks.

D. EQUITY FINANCING: SYNDICATION, BRIDGE LOANS,
AND PROJECT OWNERSHIP

The Partnership will generate approximately \$3 million of equity financing for community sponsors by arranging for the syndication of housing through limited partnerships in which community sponsors will have the controlling voice, while investor limited partners will have 99% profit and loss interests for the available tax shelter benefits. In order to syndicate efficiently the variety of projects which the Partnership will fund, it is likely that a two tiered partnership will be established. In a two tiered partnership, investor limited partners would acquire interests in a limited partnership with a single corporate general partners that would be controlled by the Boston Housing Partnership. This limited partnership would then become the single limited partner in each of a number of limited partnerships. One of these second tier limited partnerships would be formed for each housing project, and the general partner in each of these partnerships would be the community organization that sponsored the project. Through its role as general partner, the community corporation would keep control of decisions on how the property would be managed, operated, financed, and, in the long run, refinanced or sold.

Syndication proceeds from investors' capital contributions will become available during the second through the sixth years that projects are funded; that is, the first installment of capital contributions will be paid in 1984 when projects reach initial construction loan closings, and subsequent payments will be made annually through, it is estimated, 1988. In order that the value of these funds can be used to cover development and renovation costs, the Partnership will structure bridge loans that extend two to four years from initial closings until capital contributions are received. These loans will be essential in order to capture the present value of future equity proceeds. Possible sources of bridge loans include banks, foundation, and the Community Development Finance Corporation.

E. FOUNDATION FUNDING

The Partnership is seeking \$1.15 million in foundation and corporate grants to complement the other financing arrangements described above. \$472,000 is sought to cover the Partnership's direct expenses for a three year period, 1983-1985, and to cover \$100,000 of the costs it is incurring to obtain technical help in structuring the demonstration program and to provide technical assistance to

potential community sponsors in assembling feasible development packages. \$672,000 is sought to cover part of the development costs of projects financed through the demonstration program. This funding represents less than five percent of the demonstration program's overall costs, while carrying three-quarters of the Partnership's direct expenses.

In order for foundation and corporate funding to fit within the program's tight development schedule, the Partnership will seek to raise \$575,000 in 1983, \$407,000 in 1984, and \$168,000 in 1985. The large amount sought in 1983 is designed to help leverage other financing and to cover front-end development expenses incurred before projects reach initial closing of construction loans. These expenses include, for example, options, engineering and architectural work, legal work, and the costs of sponsors' own staffs. The Partnership wants to provide seed money loans for these purposes to groups whose proposals it selects to make sure that community organizations are not barred from participation by lack of ready cash. Few, if any, nonprofit community organizations have excess funds with which to take on major new projects unless new funding can also be obtained. The Partnership is now assessing whether a modest amount of additional, higher risk funding will be needed in 1983 in order to help groups acquire options on property prior to the time they are selected for funding.

The Partnership hopes to raise \$50,000 annually from Boston-based corporations, while the balance of the grants will be requested of foundations. The \$1 million in foundation funding will enable a variety of community organizations in Boston to renovate housing for households with limited incomes. As a result, affordable rental housing that would otherwise be lost to abandonment (or, in a few strong market areas, to gentrification), will be preserved and offered to residents at costs which are substantially below those of comparable privately-sponsored buildings, and sponsoring community organizations will be able to control mortgage and equity financing worth \$13 million.

